

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Davison-Richfield Area Fire Authority	County Genesee
Fiscal Year End June 30, 2006	Opinion Date August 18, 2006	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

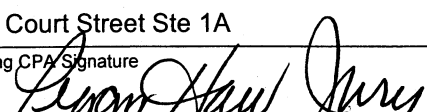
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	Letter of Comments and Recommendations not issued.	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Plante & Moran PLLC		Telephone Number 810-767-5350	
Street Address 111 E Court Street Ste 1A		City Flint	State MI
Zip 48502			
Authorizing CPA Signature 		Printed Name Peggy Haw Jury	License Number 1101009025

Financial Report
Davison-Richfield Area Fire Authority
Genesee County, Michigan
For the Year Ended June 30, 2006
with *Independent Auditors' Report*

**Davison – Richfield Area Fire Authority
Annual Financial Report
For the Fiscal Year Ended June 30, 2006**

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Introductory Section

**Davison - Richfield Area Fire Authority
Davison, Michigan
List of Appointed Officials and Fire Chief**

Appointed Officials

Pete Auger	Chairperson
Lisa Holmes	Vice Chairperson
Jim Jacques	Secretary
Kurt Soper	Treasurer
Mike Christopherson	
Tim Elkins	
Ron Emery	

Fire Chief

Mike Wright

Financial Section



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Independent Auditors' Report

Davison – Richfield Area Fire Authority Board
Davison – Richfield Area Fire Authority
Davison, Michigan

We have audited the financial statements of the general fund and governmental activities of the Davison - Richfield Area Fire Authority, Michigan (Authority) as of June 30, 2006, and for the year then ended, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph, present fairly, in all material respects, the respective financial positions of the general fund and the governmental activities of the Davison - Richfield Area Fire Authority, Michigan as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Plante & Moran, PLLC

August 18, 2006

Management's Discussion and Analysis

**Davison – Richfield Area Fire Authority
Management's Discussion and Analysis
June 30, 2006**

As management of Davison – Richfield Area Fire Authority (Authority), we offer readers of Davison – Richfield Area Fire Authority's financial statements this narrative overview and analysis of the financial activities of the Authority.

The basic financial statements for the Authority are comprised of the governmental fund balance sheet/statement of net assets, combined statement of revenues, expenditures, and changes in fund balances/statement of activities and notes to the financial statements.

The statement of net assets presents the information of the governmental fund for both the assets and liabilities, with the difference between the two reported as net assets.

The statement of activities presents information showing how the governmental fund's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the governmental fund financial statements.

Financial Highlights

The government-wide financial analysis focuses on the Statement of Net Assets and the Statement of Activities. The total assets of the Authority are \$2,942,762 of which \$2,092,980 represents cash, cash equivalents, and investments. The liabilities are \$53,022, which represents amounts due to vendors of \$11,556 and \$41,466 of accrued wages, leaving current net assets of \$2,889,740.

Net assets increased \$198,892 for the Authority as a result of \$480,412 in fire protection expenses which are offset by direct charges for services of \$593,564 and general revenues of \$85,740. Charges for services from municipal billings of \$582,264 were generated from fire runs which are charged to the individual participating units based on the location of the fire runs. During the fiscal year ended June 30, 2006, the Authority had a total of 406 runs. 372 of the total runs were billed to the participating units at a per fire run charge of \$1,518.95; 34 of the total runs were mutual aid/weather runs billed at \$506.32 per run. The Authority generated inspection income in the amount of \$11,300.

Net assets invested in capital assets amount to \$609,320 leaving unrestricted net assets of \$2,280,420.

Capital assets, net of accumulated depreciation, totaled \$609,320 at June 30, 2006. These assets are depreciated over various lives based on the type of asset. Accumulated depreciation to date is \$1,477,756. Should the Authority ever disband the capital assets are to be allocated based on the contributions made by each participating unit for specific years. These percentages are calculated yearly and are detailed by year in the notes to the financial statements.

The revenue collected for fire runs is allocated as follows: future equipment replacement \$60; future vehicle replacement \$387; and normal operations \$1,072 for regular runs and \$59 for mutual aid/weather runs. Therefore, the majority of the unrestricted net assets are being set aside for future equipment and vehicle expenditures. At June 30, 2006, \$1,928,994 was set aside for future vehicle expenditures and \$296,466 was set aside for future equipment expenditures.

Government-wide Financial Analysis

Davison-Richfield Area Fire Authority's Net Assets

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Current and other assets	\$2,333,442	\$2,134,720
Capital assets	<u>609,320</u>	<u>606,864</u>
Total assets	<u>2,942,762</u>	<u>2,741,584</u>
Liabilities	<u>53,022</u>	<u>50,736</u>
Net assets:		
Invested in capital assets	609,320	606,864
Unrestricted	<u>2,280,420</u>	<u>2,083,984</u>
Total net assets	<u>\$2,889,740</u>	<u>\$2,690,848</u>

Davison-Richfield Area Fire Authority's Capital Assets-Net of Depreciation

	Governmental Activities	
	<u>2006</u>	<u>2005</u>
Alarm equipment	\$ 845	\$ 1,268
Trucks and vehicles	512,018	535,455
Radio equipment	31,390	9,566
Fire fighting equipment	18,875	13,377
Fire hall equipment	14,901	25,097
Building improvements	26,291	17,101
Building and land	<u>5,000</u>	<u>5,000</u>
Total	<u>\$609,320</u>	<u>\$606,864</u>

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Davison-Richfield Area Fire Authority, assets exceeded liabilities by \$2,889,740.

By far the largest portion of the Authority's net assets (79%) is available for unrestricted purposes.

Current and other assets increased \$198,722 from prior year due to excess revenues over expenditures. Capital assets increased \$2,456 due to the net effect of purchasing capital assets less annual depreciation.

Davison-Richfield Area Fire Authority's Changes in Net Assets

	<u>2006</u>	<u>2005</u>
Revenues		
Program revenues:		
Charges for services	\$ 593,564	\$ 495,078
General revenues:		
Interest income	77,657	106,717
Miscellaneous income	8,083	45
Total revenues	<u>679,304</u>	<u>601,840</u>
Expenses:		
Fire protection	<u>480,412</u>	<u>467,564</u>
Total expenses	<u>480,412</u>	<u>467,564</u>
Increase in net assets	198,892	134,276
Net assets - beginning of the year	<u>2,690,848</u>	<u>2,556,572</u>
Net assets - end of the year	<u><u>\$2,889,740</u></u>	<u><u>\$2,690,848</u></u>

Charges for services increased \$98,486 and are made up of two components; municipal billings and inspection income. Municipal billings increased \$100,716 due to 42 more runs and an increase in billing rate per run in fiscal year 2006. Inspection income decreased \$2,230. Interest income decreased \$29,060 primarily due to a large certificate of deposit maturing in fiscal year 2005.

Fire protection expenses are consistent with prior year. Increase in net assets increased \$64,616 primarily due to the increase in the number of fire runs in fiscal year 2006.

Budget

The budget for 2006 was amended as required by State law. Both the original budget and the amended budget have been shown in the document for 2006. The Authority has again produced a timely and balanced budget for 2007.

Contacting the Authority's Management

This financial report is intended to provide our citizens and participating units of government with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, we welcome you to contact the Authority's Treasurer from Davison Township.

Basic Financial Statements

Davison-Richfield Area Fire Authority
Statement of Net Assets and
Governmental Fund Balance Sheet
General Fund
Year Ended June 30, 2006

	General Fund	Adjustments (Note II A)	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 1,011,640	\$ -	\$ 1,011,640
Investments	1,081,340	-	1,081,340
Accrued interest receivable	55,542	-	55,542
Due from other governments	145,829	-	145,829
Prepaid costs	38,631	-	38,631
Deposits	460	-	460
Capital assets, net of depreciation	-	609,320	609,320
	<hr/>		<hr/>
Total assets	\$ 2,333,442	609,320	2,942,762
	<hr/>		<hr/>
Liabilities			
Accounts payable	\$ 11,556	-	11,556
Accrued wages	41,466	-	41,466
	<hr/>		<hr/>
Total liabilities	53,022	-	53,022
	<hr/>		<hr/>
Fund Balances/Net Assets			
Fund balances:			
Reserved for prepaid costs	38,631	(38,631)	-
Reserved for equipment purchases	296,466	(296,466)	-
Reserved for vehicle purchases	1,928,994	(1,928,994)	-
Unreserved and undesignated	16,329	(16,329)	-
	<hr/>		<hr/>
Total fund balances	2,280,420	(2,280,420)	-
	<hr/>		<hr/>
Total liabilities and fund balances	\$ 2,333,442	-	-
	<hr/>		<hr/>
Net assets:			
Invested in capital assets		609,320	609,320
Restricted for equipment purchases		296,466	296,466
Restricted for vehicle purchases		1,928,994	1,928,994
Unrestricted		54,960	54,960
		<hr/>	<hr/>
Total net assets		\$ 2,889,740	\$ 2,889,740
		<hr/>	<hr/>

See notes to financial statements.

**Davison-Richfield Area Fire Authority
Statement of Activities and
Governmental Fund Revenues, Expenditures, and
Changes in Fund Balance
General Fund
Year Ended June 30, 2006**

	<u>General Fund</u>	<u>Adjustment (Note II B)</u>	<u>Statement of Activities</u>
Expenditures/expenses			
Fire protection	\$ 482,868	\$ (2,456)	\$ 480,412
Program revenues:			
Charges for services:			
Municipal billings	582,264	-	582,264
Inspection income	11,300	-	11,300
Total program revenues	593,564	-	593,564
Net program revenue		2,456	113,152
Other revenues:			
Interest income	77,657	-	77,657
Miscellaneous	6,583	-	6,583
Total other revenues	84,240	-	84,240
Other financing sources			
Gain on sale of capital assets	1,500	-	1,500
Total general revenues			85,740
Excess (deficiency) of revenues over expenditure	196,436	2,456	198,892
Fund balance/net assets			
Beginning of the year	2,083,984	606,864	2,690,848
End of the year	\$ 2,280,420	\$ 609,320	2,889,740

See notes to financial statements.

Notes to Basic Financial Statements

Davison – Richfield Area Fire Authority
Notes to Financial Statements
June 30, 2006

I. Summary of significant accounting policies

The accounting policies of the Davison – Richfield Area Fire Authority (Authority) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Davison – Richfield Area Fire Authority.

A. Reporting entity

The accompanying financial statements present the government and its component units, legally separate entities for which the Authority is considered to be financially accountable. The Authority did not have any component units at June 30, 2006.

The Davison – Richfield Area Fire Authority was formed by an agreement between the City of Davison, Davison Township, and Richfield Township, to operate a fire department on a shared cost basis. The Authority is governed by a seven member board appointed by the governing bodies of the participating members. The agreement provides that each unit will appropriate funds to the Authority based on \$1,519 for each fire run in its jurisdiction and \$506 for each mutual aid fire run/weather call.

In addition, the Board of the Authority is required to submit an annual operating budget to the governing body of each municipality for approval. Any of the members may withdraw from the Authority by giving written notice one year prior to withdrawal. The withdrawing party shall receive a share of the equity of the Authority as provided in the agreement. (See Note 2B for each unit's percentage share of fixed assets.)

The following are the contributions made by the Authority members for the year ended June 30, 2006:

	<u>Total</u>	<u>City of Davison</u>	<u>Richfield Township</u>	<u>Davison Township</u>
Municipal billings	<u>\$582,264</u>	<u>\$114,934</u>	<u>\$162,021</u>	<u>\$305,309</u>

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct* expenses are those that are clearly identifiable with fire protection. *Program revenues* include 1) charges to customers or governments who purchase, use, or directly benefit from fire protection or services, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of fire protection. Other items not properly included among program revenues are reported instead as *general revenues*.

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2006

I. Summary of significant accounting policies – (continued)

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Municipal billings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following governmental fund:

General Fund - The General Fund is the general operating fund of the Authority. It is used to account for all financial resources.

D. Assets, liabilities, and net assets or equity

1. Cash and cash equivalents

The Authority's cash and cash equivalents include demand deposits and sweep money market funds.

2. Investments

Investments are stated at fair value. A certificate of deposit with a maturity date of greater than three months of time of purchase has been recorded as an investment on the financial statements.

3. Capital assets

Capital assets, which include land buildings, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the authority as personal property assets with an initial, individual cost of more than \$500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2006

I. Summary of significant accounting policies – (continued)

D. Assets, liabilities, and net assets or equity – (continued)

3. Capital assets – (continued)

All real property purchased by the Authority must be titled in the name of the Authority and has been included in capital assets.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Buildings, building improvements, and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Alarm equipment	5-15
Radio equipment	3-10
Fire hall equipment	5-10
Fire fighting equipment	5-15
Building improvements	10-15
Building	20
Trucks and vehicles	5-20

4. Fund equity

In the fund financial statements, the governmental fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. There are no designations of fund balance at year end.

5. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2006

II. Reconciliation of government-wide and fund financial statements

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance -total governmental funds* and *net assets -governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of this difference are as follows:

Capital assets, net of depreciation	<u>\$604,320</u>
Net adjustment to increase <i>fund balance -total governmental funds</i> to arrive at <i>net assets -governmental activities</i>	<u>\$604,320</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances -total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

Capital outlay	\$ 84,395
Depreciation expense	<u>(81,939)</u>
Net adjustment to decrease <i>net changes in fund balances -</i> <i>total governmental funds</i> to arrive at <i>changes in net assets</i> <i>of governmental activities</i>	<u>\$ 2,456</u>

III. Stewardship, compliance, and accountability

Budgetary information

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, a proposed operating budget is submitted to the Authority Board for the year commencing the following July 1. The operating budget includes proposed expenditures, and the means of financing them, for the General Fund.
2. Public hearings are conducted to obtain taxpayer comments.
3. After the Authority Board reviews the proposed budget, it is then sent to the three municipalities for their approval. The budget is legally adopted on a fund basis after each municipality submits its approval to the Authority Board.

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2006

III. Stewardship, compliance, and accountability – (continued)

Budgetary information – (continued)

4. Any revisions to the budget must first be approved by the Authority Board and then by each municipality.
5. Formal budgetary integration is employed as a management control device during the year. Also, the budget is adopted on a basis consistent with generally accepted accounting principles.
6. Budget appropriations lapse at year end.
7. The original budget was amended during the year.

IV. Detailed notes on all funds

A. Deposits and investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated two banks for the deposit of its funds; JP Morgan Chase and National City. The investment policy adopted by the Board is in accordance with Public Act 196 of 1997 as listed above. The Authority's deposits are in accordance with statutory authority.

The Authority's cash and investments are subject to two different types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Authority had \$981,340 of bank deposits (certificates of deposit) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2006

IV. Detailed notes on all funds – (continued)

A. Deposits and investments – (continued)

Deposits: – (continued)

Custodial credit risk of investments:

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy for custodial credit risk. At year end, the following investment securities were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name:

<u>Type of Investment</u>	<u>Carrying Value</u>	<u>How Held</u>
Government operating money market fund	\$1,019,777	Counterparty

B. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Capital assets being depreciated:				
Alarm equipment	2,738	-	-	2,738
Trucks and vehicles	1,463,123	31,178	(7,000)	1,487,301
Radio equipment	53,821	29,433	-	83,254
Fire fighting equipment	149,680	12,084	-	161,764
Fire hall equipment	89,825	-	-	89,825
Building improvements	50,494	11,700	-	62,194
Building	195,000	-	-	195,000
Total capital assets being depreciated	2,004,681	84,395	(7,000)	2,082,076
Less accumulated depreciation for:				
Alarm equipment	(1,470)	(423)	-	(1,893)
Trucks and vehicles	(927,668)	(54,615)	7,000	(975,283)
Radio equipment	(44,255)	(7,609)	-	(51,864)
Fire fighting equipment	(136,303)	(6,586)	-	(142,889)
Fire hall equipment	(64,728)	(10,196)	-	(74,924)
Building improvements	(33,393)	(2,510)	-	(35,903)
Building	(195,000)	-	-	(195,000)
Total accumulated depreciation	(1,402,817)	(81,939)	7,000	(1,477,756)
Total capital assets being depreciated, net	601,864	2,456	-	604,320
Governmental activities capital assets, net	\$ 606,864	\$ 2,456	\$ -	\$ 609,320

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2006

IV. Detailed notes on all funds – (continued)

B. Capital assets – (continued)

Depreciation expense recognized was charged to the fire protection function.

Capital assets allocation:

Effective with the reorganization of the Authority the capital assets purchased through December 31, 1999 are allocated to the participating governments in the following ownership percentages: City of Davison – 18.22%, Richfield Township – 26.00%, and Davison Township – 55.78%. These percentages were calculated based on the contributions to the Capital Improvement Fund from 1984 to 1999.

For the period 2000 and forward the capital assets purchased are to be allocated based on the municipal billings paid by each unit for their fire runs divided by the total fire run income. The ownership percentages for these periods are as follows:

<u>Period Ending</u>	<u>City of Davison</u>	<u>Richfield Township</u>	<u>Davison Township</u>
Six months ended June 30, 2000	22.22%	26.84%	50.40%
Year ended June 30, 2001	16.63	22.98	60.39
Year ended June 30, 2002	20.21	24.74	55.05
Year ended June 30, 2003	19.65	23.02	57.33
Year ended June 30, 2004	20.84	21.60	57.56
Year ended June 30, 2005	19.43	28.63	51.94
Year ended June 30, 2006	19.74	27.83	52.43

C. Fund balance reserves

Per the Authority's plan of reorganization, the revenues and expenditures incurred by the General fund are allocated to specific fund balance reserves as detailed below:

	<u>Equipment</u>	<u>Vehicles</u>	<u>Contingency</u>	<u>Total</u>
Beginning balance	\$325,742	\$1,729,797	\$ 28,445	\$2,083,984
Revenue	24,360	157,122	400,782	582,264
Interest income	5,418	71,753	486	77,657
Other income	-	1,500	17,883	19,383
Expenses	(59,054)	(31,178)	(392,636)	(482,868)
Ending balances	<u>\$296,466</u>	<u>\$1,928,994</u>	<u>\$ 54,960</u>	<u>\$2,280,420</u>

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2006

IV. Detailed notes on all funds – (continued)

C. Fund balance reserves– (continued)

The allocation of fire run revenue by reserve is as follows:

- Equipment reserve revenue is based on the number of runs times \$60.
- Vehicle reserve revenue is based on the number of runs times \$387.
- The balance of fire run revenue, \$1,072 for regular runs and \$59 for mutual aid/weather runs, is allocated to the contingency reserve.

For the year ended June 30, 2006, there was a total of 406 runs. 34 of these runs were mutual aid/weather runs billed at \$506 per run to each unit.

The purpose of each reservation is as follows:

- Equipment - to accumulate funds and replace equipment per an approved budget.
- Vehicle - to accumulate funds and replace vehicles per an approved budget.
- Contingency - to cover regular operating expenses of the Authority. This reserve is not to exceed 20% of the annual operating budget excluding any items expensed through the equipment or vehicle reserves.

D. Long-term lease commitment

The Authority entered into a seventy-two month non-cancelable operating lease agreement for usage of a copy machine. The agreement started November 2001. The monthly payment is \$160 (2,500 copies @ \$.064 per copy). At this time, the Authority has not entered into a new lease agreement to supersede the current lease upon termination.

Following is the amount due by fiscal year:

2007	<u> \$ 640 </u>
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The rental expense for the year ended June 30, 2006 was \$2,048.

V. Other information

A. Retirement plan

The Authority adopted a defined contribution plan effective July 1, 2003 in-lieu of paying social security. All employees are covered by this plan. The Township contributes 6.20% in-lieu of social security and also matches employee's mandatory contribution of 3% with a 3% match for a total employer contribution of 9.20%. Payroll costs of all employees amounted to \$226,559. During the current year, the General Fund contributed the Authority's portion of the pension cost amounting to \$20,843. Employees made all required contributions (\$6,797) to the plan during the current year. The Authority's policy is to pay pension costs as accrued. The Authority also continued to pay the Medicare portion of social security to the Internal Revenue Service.

Davison – Richfield Area Fire Authority
Davison, Michigan
Notes to Financial Statements
June 30, 2006

V. Other information – (continued)

B. Risk management

The Authority is exposed to various risks at loss related to property loss, torts, errors and omissions, and employee injuries. The Authority has purchased commercial insurance for coverage of all claims except full time employee unemployment benefits. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Authority pays unemployment claims on a reimbursement basis.

Required Supplementary Information

Davison-Richfield Area Fire Authority
Schedules of Revenue, Expenditures, and Changes in
Fund Balances - Budget and Actual
General Fund
Year Ended June 30, 2006

	Budget		Actual	Over (Under) Budget
	Original	Final		
Revenues:				
Municipal billings	\$ 709,343	\$ 569,605	582,264	\$ 12,659
Inspection income	21,800	21,800	11,300	(10,500)
Interest income	12,000	46,500	77,657	31,157
Other income	250	250	8,083	7,833
Total revenues	743,393	638,155	679,304	41,149
Expenditures:				
Current:				
Administrative costs	2,300	1,500	6,922	5,422
Professional fees	4,550	4,550	3,375	(1,175)
Building and grounds	36,265	22,765	20,413	(2,352)
Department clerk	30,273	31,293	31,440	147
Dues, memberships, and subscriptions	3,478	2,600	1,830	(770)
Fire Authority meetings	1,860	1,860	1,539	(321)
Insurance	56,639	45,373	40,537	(4,836)
Office supplies	5,500	4,000	3,843	(157)
Special schools and seminars	23,750	10,500	5,213	(5,287)
Telephone	6,360	4,500	4,237	(263)
Utilities	14,300	11,975	13,290	1,315
Miscellaneous expense	14,675	10,725	5,143	(5,582)
Fire prevention	4,000	3,500	3,503	3
Equipment maintenance	7,050	6,900	4,397	(2,503)
Gas, oil, grease, and etc.	4,560	5,352	6,380	1,028
Labor	334,858	243,188	228,733	(14,455)
Radio maintenance	1,000	1,000	321	(679)
Vehicle maintenance	12,100	12,200	11,520	(680)
Equipment trust expenses	165,043	66,533	59,054	(7,479)
Vehicle trust expenses	475,000	41,000	31,178	(9,822)
Total expenditures	1,203,561	531,314	482,868	(48,446)
Excess (deficiency) of revenue over expenditures	(460,168)	106,841	196,436	89,595
Fund balance at beginning of year	2,083,984	2,083,984	2,083,984	-
Fund balance at end of year	\$ 1,623,816	\$ 2,190,825	\$ 2,280,420	\$ 89,595